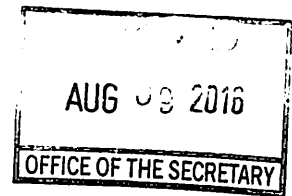


**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**



**ADMINISTRATIVE PROCEEDINGS RULINGS**

**Release No. 3932/August 1, 2016**

**ADMINISTRATIVE PROCEEDING**

**File No. 3-17228**

**In the Matter of**

**DAVID S. HALL, P.C. d/b/a THE HALL GROUP CPAs,  
DAVID S. HALL, CPA,  
MICHELLE L. HELTERBRAN COCHRAN, CPA, and  
SUSAN A. CISNEROS  
RESPONDENTS**

**REPLY TO  
RESPONSE ON  
MOTION FOR  
SUMMARY  
DISPOSITION**

Respondent, Michelle L. Helterbran Cochran (herein referred to as "Helterbran") hereby requests that the Division of Enforcement of the United States Securities and Exchange Commission's ("Commission's") opposition to Michelle Helterbran's Motion for Summary Disposition of allegations set forth in the Administrative Proceeding File No. 3-17228 (herein referred to as the "Order") be denied. Helterbran hereby moves that all of the allegations and violations against Helterbran in the Order be summarily disposed as there exists no genuine issue of material fact in connection with the allegations.

**A. Use of Susan Cisneros as Engagement Quality Reviewer**

On Page 2 of the Division of Enforcement's Response to Respondent Michelle L. Helterbran Cochran's Motion for Summary Disposition (the "Response"), the Commission notes that the "OIP clearly alleges that Cisneros was an employee of The Hall Group". However, The OIP *does not* clearly

identify Cisneros as an employee of The Hall Group, because she was not. It is not a contested fact, the interpretation is factually wrong, because she was an independent contractor.

Page 2 of the OIP, Paragraph 4 states that Cisneros “*worked as an audit senior*”. However, in the OIP Paragraph 3, it states Helterbran “*was employed by the firm*”. Clearly different. (Exhibit A). In fact, as shown in Exhibit B, Cisneros received nonemployee compensation (Box 7 of Form 1099) starting in 2010 when Helterbran began using her as an Engagement Quality Reviewer. Nonemployee = Not an employee.

This would make Cisneros not “Of the Firm” but rather “Outside the Firm” as highlighted in PCAOB Release 2009-004 on July 28, 2009. This release (Exhibit C) identifies In-House Reviewer: Partner or an Individual in an Equivalent Position, having certain criteria (page 6); and Qualified Reviewers from Outside the Firm having other qualifications.

As noted on page 8 of Exhibit C, the general competence requirement for a reviewer from Outside the Firm is “for the reviewer to “possess the level of knowledge and competence related to accounting, auditing and financial reporting required to serve as the person who has overall responsibility **for the same type of engagement.** (emphasis added). Page 9 goes on to say “by its terms *did not require the engagement quality reviewer’s knowledge and competence to match those of the engagement partner, or for the reviewer to be a clone of the engagement partner*”. (emphasis added). Additionally, footnote 15 on the same page notes “the general competence provision merely sets a minimum requirement for those who would perform the EQR, but it does not require the reviewer’s competence to match that of the engagement partner. In many cases, both individuals’ competence will exceed the minimum level prescribed, but there is no requirement that they do so in tandem, or even at all”. Paragraph 18 discusses that that “engagement partner” also has the same meaning as “auditor with final responsibility for the audit” and also same meaning as “practitioner-in-charge of an engagement”, which they say is the EQR standard. Exhibit D presents QC Section 40 “The Personnel Management Element of a Firm’s System of Quality Control Competencies Required by a Practitioner-in-Charge of an Attest

Engagement”. In Helterbran’s Motion for Summary Disposition, each of the competencies for Cisneros was discussed, for audits of shell companies that were thinly traded on the OTC:BB (i.e. **same type of engagement**) that had no significant audit issues (as presented in detail in Helterbran’s Motion for Summary Disposition) and based on the facts in which they are based, Summary Disposition is proper and requested on this matter.

**B. Failure to Adequately Prepare Required Audit Documentation**

In the Response from the Commission, they indicate that Helterbran’s position was ambiguous. However, page 46 of her testimony she clearly states, “I look back at the filings that I’ve done, and I have no question about the completeness and accuracy of them”.

As most of the engagements in question were tiny shell companies with no significant audit findings or issues, it would not have been necessary to prepare an Engagement Completion Document Form. However, the Commission did not indicate which engagements they believed an Engagement Completion Document was missing in order to address the specifics.

Helterbran’s Motion for Summary Disposition noted that it was not a disputed fact that workpapers may have gone missing as a result of numerous circumstances outside her control, as documented by Mr. Whipple’s testimony. (Helterbran Motion at p.7).

Additionally, at the end of the day, the Commission is implying that they do not have one workpaper in their possession on 4 audits and 4 reviews that were performed over a four-year period (2 of which were to be complete after Helterbran’s departure from the firm). This is not a **material** fact or even a material issue in The Matter of David S. Hall P.C. d/b/a The Hall Group CPAs, et. al, Administrative No. 3-17228. In fact, this few pages of documentation out of the hundreds of engagements performed and thousands of workpapers generated during her tenure would be considered **highly immaterial** and therefore, Summary Disposition should be granted for this reason as well.

## CONCLUSION AND PRAYER FOR RELIEF

It is not a disputed fact that since the date of filings in the Appendix (three to six years later) there have been no restatements, reaudits, amendments filed to correct any disclosures or any known issues with any of the 8 audits or 14 reviews for which Helterbran was the engagement partner and Cisneros performed the EQR, or on the handful of engagements in which the documentation in the hands of the Commission is not complete (out of hundreds of engagements over Helterbran's tenure with the firm). No client or investor has been harmed or damaged by the allegations herein.

It is a fact that Cisneros was Outside the Firm when she began performing as an EQR for Helterbran, and under AS7, is not required to be a partner or partner qualifications, just meet QC Section 40, which has been discussed in detail and is supported by uncontested facts.

***There is no compelling reason to continue this very expensive and time consuming case against such a good steward of the profession. Helterbran does not meet any of the Steadman Factors for cease and desist orders and based on all of the testimony and motions filed it cannot be said that Helterbran "willfully aided and abetted and caused" any securities violations.***

Your Honor, please consider the facts laid forth in the previously filed Motion, as well as this Reply to the Response to the Motion, and please rule to Dismiss this Order *as soon as possible*, either under Summary Disposition or Sua Sponte Dismissal or with regard to Michelle Helterbran and do not allow censure or sanction or impose civil money penalties or deny her the privilege of appearing or practicing before the Commission.

Sincerely,

Michelle Helterbran

**David S. Hall, CPA ("Hall"), and Michelle L. Helterbran Cochran, CPA ("Helterbran"); and Sections 4C and 21C of the Exchange Act and Rule 102(e)(1)(iii) against Susan A. Cisneros ("Cisneros").**

**II.**

After an investigation, the Division of Enforcement alleges that:

**A. RESPONDENTS**

1. **David S. Hall, P.C. d/b/a/ The Hall Group CPAs** is a Texas corporation which was licensed to practice public accountancy in Texas as The Hall Group CPAs from April 5, 2006 through May 31, 2014. Thakkar CPA, PLLC ("Thakkar CPA")<sup>3</sup> acquired certain assets of David S. Hall, P.C. on or about January 6, 2014 (the "Closing Date"), after which the latter firm ceased operations. Thakkar CPA agreed to pay David S. Hall, P.C. \$450,000 in cash at closing and to enter into a 5%, two-year promissory note for \$313,516. On March 25, 2015, David S. Hall, P.C. requested that its registration with the PCAOB be withdrawn.

2. **David S. Hall**, age 58 and a resident of Lewisville, Texas, is a CPA licensed in Texas. Hall owns 100% of David S. Hall, P.C. On April 15, 2014, Hall became the CFO for DynaResource, Inc., ("DynaResource") whose auditor was David S. Hall, P.C. d/b/a The Hall Group CPAs through January 29, 2014 and, later, Thakkar CPA d/b/a The Hall Group CPAs for the 2013 audit and 2014 reviews.

3. **Michelle L. Helterbran Cochran**, age 46 and a resident of Coppell, Texas, is a CPA licensed in the state of Texas. From September 2007 through July 2013, Helterbran was employed by David S. Hall, P.C. and became a non-equity partner with that firm in February 2012.

4. **Susan A. Cisneros**, age 58 and a resident of Flower Mound, Texas, holds a Master's of Science degree in Accounting from the University of North Texas but is not a CPA. Cisneros worked as an audit senior for David S. Hall, P.C. from January 2005 through January 2012 and again from May 2013 through December 2013.

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The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

<sup>3</sup> On April 6, 2016, the Commission issued an Order finding that Thakkar CPA, its managing partner, and its owner, engaged in improper professional conduct and violated or willfully violated Rule 2-02 of Regulation S-X and caused issuers to violation Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. The Order also found that Thakkar CPA's Vice President of Operations caused Thakkar CPA's violations of Rule 2-02(b)(1) of Regulation S-X and caused issuers to violate Section 13(a) of the Exchange Act, and Rules 13a-1 and 13a-13 thereunder. *In the Matter of Thakkar CPA, PLLC et. al*, Exchange Act Rel. No. 77542 (April 6, 2016).



Michelle Helterbran &lt;mhelterbran@gmail.com&gt;

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**Fwd: Message from KM\_C454e**

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Susan Cisneros [REDACTED]

Tue, Jul 26, 2016 at 12:52 PM

To: Michelle Helterbran [REDACTED]

Michelle,

I just left the wages on there. When I copied it, then crossed out the wages, then scanned it you couldn't read anything (too light). It really doesn't matter to me anyway.

Susan

----- Forwarded message -----

From: &lt;scanner@uscentennialrec.com&gt;

Date: Tue, Jul 26, 2016 at 12:52 PM

Subject: Message from KM\_C454e

To: [REDACTED]

NOTICE: This message is intended only for the personal and confidential use of the designated recipient(s) named above. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. This communication is for information purposes only and should not be regarded as an offer to sell or lease, or as a solicitation of an offer to buy any financial product, an official confirmation of any transaction, or as an official statement of Centennial Real Estate, or its affiliates. Email transmission cannot be guaranteed to be secure or error-free. Therefore, we do not represent that this information is complete or accurate and it should not be relied upon as such. All information is subject to change without notice. This message may contain information that is privileged, confidential, legally privileged, and/or exempt from disclosure under applicable law.

----- Forwarded message -----

From: &lt;scanner@uscentennialrec.com&gt;

To: [REDACTED]

Cc:

Date: Tue, 26 Jul 2016 11:52:15 -0600

Subject: Message from KM\_C454e

**SKM\_C454e16072611510.pdf**  
228K

EXHIBIT B

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents	OMB No. 1545-0115 <b>2010</b> Form 1099-MISC		<b>Miscellaneous Income</b>
		2 Royalties			
		3 Other income	4 Federal income tax withheld	<b>Copy B For Recipient</b>	
		5 Fishing boat proceeds	6 Medical and health care payments		
7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.			
9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds				
11	12				
13 Excess golden parachute payments	14 Gross proceeds paid to an attorney				
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	18 State income	

Form 1099-MISC

(keep for your records)

Department of the Treasury - Internal Revenue Service



## RELEASE

also included a general competence requirement and requirements related to the reviewer's independence, integrity, and objectivity.

### *In-House Reviewer: Partner or an Individual in an Equivalent Position*

The requirement in the reproposed standard for a reviewer from within the firm to be a partner or an individual in an equivalent position was intended to address concerns expressed by some commenters on the original proposal about the authority of the engagement quality reviewer relative to that of the engagement partner. Because the EQR is intended to be an objective second look at work performed by the engagement team, the reviewer should be able to withstand pressure from the engagement partner or other firm personnel, such as members of the firm's national office. As described in the reproposing release, the Board believed that concerns about authority will most often arise when the reviewer and the engagement partner work at the same firm. The Board also believed that a standard based on perceptions of relative authority within a firm would not be sufficiently clear to be workable. Accordingly, the Board attempted to address these concerns with a requirement that an in-house reviewer – but not one from outside the firm – be a partner or person in an equivalent position.

While some commenters supported the reproposed requirement, others disagreed with it, generally because, in their view, being a partner or person in an equivalent position would not necessarily ensure that the reviewer possesses the qualities required to perform the EQR. These commenters noted that partners as well as non-partners may be subject to internal pressure within the firm to provide concurring approval of issuance. In addition, in one commenter's view, it would be burdensome for one-partner firms to hire an outside reviewer to comply with this requirement. Finally, some commenters also asked the Board to define the term "equivalent position."

While both partners and non-partners may experience pressure within the firm to provide concurring approval of issuance, the Board continues to believe that the reproposed requirement is the most appropriate way to address this issue. Partnership is not a perfect proxy for authority, but a partner is more likely to possess sufficient authority to conduct the EQR than a non-partner. The Board continues to believe that a requirement based on perceptions of authority would not be workable. Accordingly, the

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fails to cooperate in an investigation or inspection. See Section 105(b)(3) of the Act and PCAOB Rules 5110 and 4006.



## RELEASE

Board is adopting this requirement substantially as repropounded.<sup>10/</sup> At a firm that is not organized as a partnership, "an individual in an equivalent position" is someone with the degree of authority and responsibility of a partner in a firm that is organized as a partnership.

### *Qualified Reviewer from Outside the Firm*

As noted above, the repropounded standard also allowed a qualified reviewer from outside the firm to conduct the review. In the repropounding release, the Board expressed the view that allowing a sufficiently qualified professor or other individual not employed by an accounting firm to perform the EQR should not negatively affect audit quality and may mitigate the compliance burden on sole practitioners and smaller firms. The Board sought comment on whether a qualified accountant who is not employed by an accounting firm should be allowed to conduct the EQR.<sup>11/</sup>

The majority of commenters on this topic did not oppose the repropounded provision. Some commenters, however, cautioned that reviewers from outside an accounting firm may not necessarily have the required technical expertise or recent audit experience. One commenter believed that allowing the use of such outside reviewers could "hamper the existing independence rules,"<sup>12/</sup> increase costs, and limit the potential growth of partners.

After considering these comments, the Board continues to believe that the EQR standard can – and should – allow firms the proposed flexibility in choosing a reviewer, provided that reviewer meets the competence and other qualification requirements.

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<sup>10/</sup> One commenter suggested that the phrasing of the repropounded standard did not establish a requirement for the in-house reviewer to be a partner because it stated that the reviewer "may be" a partner, a person in an equivalent position, or an individual outside the firm. While the use of "may" in that context imposed a requirement, to avoid any confusion on this point the Board has rephrased the requirement in paragraph 3 of AS No. 7 to use the word "must."

<sup>11/</sup> As noted in the repropounding release, under the existing requirement a firm may seek a waiver to engage an outside experienced individual to perform the EQR. Because AS No. 7 allows a firm to use an outside reviewer, such a waiver is not necessary under AS No. 7.

<sup>12/</sup> The comment did not explain how the independence rules would be hampered.

## RELEASE

According to these requirements, as discussed below, any reviewer would have to have the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the engagement under review. Accordingly, while some persons from outside a firm might not have the required qualifications, those who do can effectively perform the EQR.<sup>13/</sup>

The Board also does not agree that allowing the use of a reviewer from outside the firm issuing the report would negatively affect the application or enforcement of the independence rules. As the Board noted in the reproposing release, it will continue to consider anyone who performs the EQR to be an "audit partner" and a member of the "audit engagement team" for purposes of independence requirements.<sup>14/</sup> In addition, because AS No. 7 would not require a firm to use an outside reviewer, allowing a firm to do so should not increase costs or limit the potential growth of partners. Any firm that is concerned that invoking the flexibility provided by the EQR standard would raise its costs or impede the development of its partners could, simply, decline to do so and use a reviewer from within the firm if one is available.

When considering an outside individual for the role of the engagement quality reviewer, the firm will likely need to make additional inquiries to obtain necessary information about the individual's qualifications. For example, while information about independence of the firm's partners is typically collected and evaluated as part of the periodic independence review, information about the independence of an outside reviewer will likely need to be requested and evaluated as part of the reviewer selection process. Firms also likely know more about the competence of their own partners than of an outside reviewer.

### ***General Competence Requirement***

As noted above, the reproposed standard, like the original proposal, included a requirement for the reviewer to "possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement." This provision was intended to set a minimum requirement for those who would perform the EQR. In response to comments on the original proposal, the reproposing release explained that

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<sup>13/</sup> Similarly, a reviewer does not meet all of the qualification requirements in AS No. 7 by virtue of his or her status as a partner or employee of an accounting firm.

<sup>14/</sup> See Rule 2-01(f) of Regulation S-X, 17 C.F.R. § 210.2-01(f), for the definitions of "audit partner" and "audit engagement team."



**RELEASE**

this provision, by its terms, did not require the engagement quality reviewer's knowledge and competence to match those of the engagement partner, or for the reviewer to be a "clone" of the engagement partner.<sup>15/</sup>

Some commenters reiterated their concerns that the engagement quality reviewer's skills would be expected to match those of the engagement partner, and that such a requirement could cause resource constraints for smaller firms. Other commenters suggested modifying the general competence provision by stating that the reviewer's competence should be established based on the facts and circumstances of the engagement, or describing the required qualifications from the reviewer's perspective, rather than by comparing them to the qualifications of the engagement partner. Finally, some commenters suggested including in the EQR standard a statement that the reviewer may obtain the required level of knowledge and competence through utilizing assistants.

The Board continues to believe that if a minimum level of knowledge and competence in accounting, auditing, and financial reporting is required to conduct an audit, it is similarly necessary to effectively review that audit.<sup>16/</sup> The reviewer is not required to possess other competencies, e.g., those related to communication or management skills, that the engagement partner may have.

Accordingly, the Board is adopting the general competence provision substantially as proposed. The Board is, however, modifying the requirement to clarify further that the determination of what constitutes the appropriate level of knowledge and competence should be based on the circumstances of the engagement, including the size and complexity of the business under audit or under interim review.<sup>17/</sup> In AS No. 7,

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<sup>15/</sup> Specifically, the reproposing release noted:

The general competence provision merely sets a minimum requirement for those who would perform the EQR, but it does not require the reviewer's competence to match that of the engagement partner. In many cases, both individuals' competence will exceed the minimum level prescribed, but there is no requirement that they do so in tandem, or even at all.

<sup>16/</sup> While a reviewer may use assistants in performing the EQR, the reviewer's own skills should meet the requirements of AS No. 7.

<sup>17/</sup> Footnote 18 on page 9 of the original release stated, "The determination of what constitutes the appropriate level of knowledge and competence should be based

## RELEASE

the Board replaced the phrase "the same type of engagement" with "the engagement." The new phrasing focuses the reviewer on the particular engagement under review, rather than that "type" of engagement.<sup>18/</sup> Firms that do not have partners that meet this general competence requirement available to perform the EQR may engage an outside reviewer to perform an EQR.

### *Independence, Integrity, and Objectivity*

Like the original proposal, the repropoed standard required the reviewer to be independent of the company, perform the review with integrity, and maintain objectivity. Comments on the reproposal focused on two provisions regarding objectivity – the prohibition against the reviewer supervising the engagement team and the two-year "cooling-off" period before the engagement partner could perform the EQR.

#### *Supervision of the Engagement Team*

The repropoed standard provided that to maintain objectivity the engagement quality reviewer should not, among other things, "supervise the engagement team with respect to the engagement subject to the engagement quality review." The phrase "subject to the engagement quality review" was intended to clarify that partners with leadership responsibilities in a firm, region, service, or industry practice are not, solely because of those responsibilities, precluded from reviewing any engagement performed by their subordinates in the firm. Some commenters believed that the phrase "subject to the engagement quality review" was not sufficient to clarify this point.

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on the circumstances of the engagement, including the size or complexity of the business."

<sup>18/</sup> In addition, to simplify the text of AS No. 7, the Board replaced the phrase "person with overall responsibility for the engagement" with the term "engagement partner." Footnote 3 of AS No. 7 explains that the term "engagement partner" has the same meaning as the phrases the "auditor with final responsibility for the audit," as described in AU sec. 311, *Planning and Supervision*, and the "practitioner-in-charge of an engagement," as described in PCAOB interim quality control standard QC sec. 40, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*. Because all of these terms refer to the same person, this change does not alter the meaning of the EQR standard.



## RELEASE

After considering these comments, the Board has decided that the express prohibition against "supervis[ing] the engagement team with respect to the engagement subject to the engagement quality review" is not necessary to effectuate the Board's intent. The remaining two criteria for maintaining objectivity in paragraph 7 of AS No. 7 – not making decisions on behalf of the engagement team and not assuming any responsibilities of the engagement team – are sufficient to preclude those involved in the engagement from serving as the engagement quality reviewer.<sup>19/</sup> For example, partners (including the engagement partner and other partners on larger engagements), managers, and others who supervise engagement personnel on the audit under review would not qualify under the remaining criteria because they have assumed responsibilities of the engagement team. At the same time, removing the phrase "supervise the engagement team" from AS No. 7 should further clarify that those in leadership positions in the firm who did not make decisions for or assume responsibilities of the engagement team may perform the EQR.

### *The Two-Year "Cooling-Off" Period*

The repropoed standard included a provision prohibiting an engagement partner from serving as the engagement quality reviewer for at least two years following his or her last year as the engagement partner.<sup>20/</sup> The Board included the "cooling-off" period because it believed that it would be harder for an engagement partner who has had overall responsibility for the audit for at least a year to perform the review with the

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<sup>19/</sup> AS No. 7 does not prohibit the engagement team from consulting with the reviewer, as long as the reviewer maintains his or her objectivity in accordance with paragraph 7. As noted in the repropoing release, such consultations may contribute to audit quality. In addition, one commenter asked the Board to clarify whether a reviewer may consult with the same personnel who previously consulted with the engagement team. The EQR standard does not prohibit the reviewer from holding discussions with such personnel. The reviewer may not, however, use personnel who previously consulted with the engagement team as assistants in performing the review unless they meet the objectivity and other qualification requirements of AS No. 7. To emphasize the requirement that assistants maintain objectivity, the Board added to paragraph 7 of AS No. 7 the phrase "and others who assist the reviewer."

<sup>20/</sup> SEC independence rules allow engagement partners and concurring partners to serve for five consecutive years, after which they may not serve in either role for another period of five years. Within a five-year period, SEC independence rules do not impose a "cooling-off" period before the engagement partner can serve as the concurring partner. See Rule 2 - 01(c)(6)(i)(A) of Regulation S-X.

## QC Section 40

# The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement

## Introduction

.01

Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that a CPA firm shall have a system of quality control for its accounting and auditing practice <sup>m 1</sup> that should encompass the following elements:

- a. Independence, integrity, and objectivity
- b. Personnel management
- c. Acceptance and continuance of clients and engagements
- d. Engagement performance
- e. Monitoring

## The Personnel Management Element of Quality Control

.02

*Personnel Management* encompasses hiring, assigning personnel to engagements, professional development, and advancement activities. Accordingly, policies and procedures should be established to provide the firm with reasonable assurance that—



- a. Those hired possess the appropriate characteristics to enable them to perform competently. Examples of such characteristics may include meeting minimum academic requirements established by the firm, maturity, integrity, and leadership traits.
- b. Work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.
- c. Personnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned, and satisfy applicable continuing professional education requirements of the AICPA, and regulatory agencies.<sup>in 2</sup>
- d. Personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.

.03

This section clarifies the requirements of the personnel management element of a firm's system of quality control. In light of the significant responsibilities during the planning and performance of accounting, auditing, and attestation engagements of individuals who are responsible for supervising accounting, auditing, and attestation engagements and signing or authorizing an individual to sign the accountants report on such engagements, a firm's policies and procedures related to the items noted in paragraph .02 above should be designed to provide a firm with reasonable assurance that such individuals possess the kinds of competencies that are appropriate given the circumstances of individual client engagements. For purposes of this standard, such an individual is referred to as the practitioner-in-charge of the engagement.

## Competencies

.04

Competencies are the knowledge, skills, and abilities that enable a practitioner-in-charge to be qualified to perform an accounting, auditing, or attestation engagement. A firm is expected to determine the kinds of competencies that are necessary in the individual circumstances.

Competencies are not measured by periods of time because such a quantitative measurement



may not accurately reflect the kinds of experiences gained by a practitioner in any given time period. Accordingly, for purposes of this section, a measure of overall competency is qualitative rather than quantitative.

## Gaining Competencies

.05

A firm's policies and procedures would ordinarily require a practitioner-in-charge of an engagement to gain the necessary competencies through recent experience in accounting, auditing, and attestation engagements. In some cases, however, a practitioner-in-charge will have obtained the necessary competencies through disciplines other than the practice of public accounting, such as in relevant industry, governmental, and academic positions. If necessary, the experience of the practitioner-in-charge should be supplemented by continuing professional education (CPE) and consultation. The following are examples.

A practitioner-in-charge of an engagement whose recent experience has consisted primarily in providing tax services may acquire the competencies necessary in the circumstances to perform a compilation or review engagement by obtaining relevant CPE.

A practitioner-in-charge of an engagement who did not have any experience in auditing the financial statements of a public company and only possessed recent prior experience in auditing the financial statements of nonpublic entities may develop the necessary competencies by obtaining relevant CPE related to SEC rules and regulations and consulting with other practitioners who possess relevant knowledge related to SEC rules and regulations.

A practitioner-in-charge of an engagement who did not have any experience in auditing the financial statements of a public company but possessed prior public accounting practice experience auditing financial statements of nonpublic entities and who also has relevant experience as the controller of a public company may have the necessary competencies in the circumstances.

A practitioner-in-charge of an engagement whose actual experience consists of performing review and compilation engagements may be able to obtain the necessary competencies to perform an audit by becoming familiar with the industry in which the client operates, obtaining

continuing professional education relating to auditing, and/or using consulting sources during the course of performing the audit engagement

A person in academia might obtain the necessary competencies to perform accounting, auditing or attestation engagements by (a) obtaining specialized knowledge through teaching or authorship of research projects or similar papers, and (b) a rigorous self-study program or by engaging a consultant to assist on such engagements.

.06

Regardless of the manner in which a particular competency is gained, a firm's quality control policies and procedures should be adequate to provide reasonable assurance that a practitioner-in-charge of an engagement possesses the competencies necessary to fulfill his or her engagement responsibilities.

.07

The nature and extent of competencies established by a firm that are expected of the practitioner-in-charge of an engagement should be based on the characteristics of a particular client, industry, and the kind of service being provided. For example, the following should be considered.

The competencies expected of a practitioner-in-charge of an engagement to compile financial statements would be different than those expected of a practitioner engaged to review or audit financial statements.

Supervising engagements and signing or authorizing others to sign reports for clients in certain industries or engagements, such as financial services, governmental, or employee benefit plan engagements, would require different competencies than what would be expected in performing attest services for clients in other industries.

The practitioner-in-charge of an engagement to audit the financial statements of a public company would be expected to have certain technical proficiency in SEC reporting requirements, while a practitioner-in-charge who is not assigned to the audits of public companies would not need to be proficient in this area. This would include, for example, experience in the industry and



appropriate knowledge of SEC and ISB rules and regulations, including accounting and independence standards.

The practitioner-in-charge of an attestation engagement to examine management's assertion about the effectiveness of an entity's internal control over financial reporting would be expected to have certain technical proficiency in understanding and evaluating the effectiveness of controls, while a practitioner-in-charge of an attestation engagement to examine investment performance statistics would be expected to have different competencies, including an understanding of the subject matter of the underlying assertion.

### Competencies Expected in Performing Accounting, Auditing, and Attestation Engagements

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In practice, the kinds of competency requirements that a firm should establish for the practitioner-in-charge of an engagement are necessarily broad and varied in both their nature and number. However, the firm's quality control policies and procedures should ordinarily address the following competencies for the practitioner-in-charge of an engagement. Firms policies and procedures should also address other competencies as necessary in the circumstances.

*Understanding of the Role of a System of Quality Control and the Code of Professional Conduct*—Practitioners-in-charge of an engagement should possess an understanding of the role of a firm's system of quality control and the AICPA's Code of Professional Conduct, both of which play critical roles in assuring the integrity of the various kinds of accountant's reports.

*Understanding of the Service to be Performed*—Practitioners-in-charge of an engagement should possess an understanding of the performance, supervision, and reporting aspects of the engagement, which is normally gained through actual participation in that kind of engagement under appropriate supervision.

*Technical Proficiency*—Practitioners-in-charge of an engagement should possess an understanding of the applicable accounting, auditing, and attest professional standards including those standards directly related to the industry in which a client operates and the kinds of transactions in which a client engages.

*Familiarity with the Industry*—To the extent required by professional standards applicable to the kind of service being performed, practitioners-in-charge of an engagement should possess an understanding of the industry in which a client operates. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry specific estimates.

*Professional Judgment*—Practitioners-in-charge of an engagement should possess skills that indicate sound professional judgment. In performing an audit or review of financial statements, such skills would typically include the ability to exercise professional skepticism and identify areas requiring special consideration including, for example, the evaluation of the reasonableness of estimates and representations made by management and the determination of the kind of report necessary in the circumstances.

*Understanding the Organization's Information Technology Systems*—Practitioners-in-charge of an audit engagement should have an understanding of how the organization is dependent on or enabled by information technologies; and the manner in which information systems are used to record and maintain financial information.

## Interrelationship of Competencies and Other Elements of a Firm's System of Quality Control

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The competencies listed above are interrelated and gaining one particular competency may be related to achieving another. For example, familiarity with the client's industry interrelates with a practitioner's ability to make professional judgments relating to the client.

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In establishing policies and procedures related to the nature of competencies needed by the practitioner-in-charge of an engagement, a firm may need to consider the requirements of policies and procedures established for other elements of quality control. For example, a firm would consider its requirements related to engagement performance in determining the nature of



any competency requirements that assess the degree of technical proficiency necessary in a given set of circumstances.

## The Relationship of the Competency Requirement of the Uniform Accountancy Act to the Personnel Management Element of Quality Control

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The Uniform Accountancy Act (UAA) is a model legislative statute and related administrative rules that the AICPA and the National Association of State Boards of Accountancy (NASBA) designed to provide a uniform approach to the regulation of the accounting profession. CPAs are not required to follow the provisions of the UAA itself but rather the accountancy laws of the individual licensing jurisdictions in the United States governing the practice of public accounting, which may have adopted the UAA in whole or in part. The UAA provides that "any individual licensee who is responsible for supervising attest or compilation services and signs or authorizes someone to sign the accountant's report on the financial statements on behalf of the firm shall meet the competency requirements set out in the professional standards for such services." A firm's compliance with this section is intended to enable a practitioner who performs the services described in the preceding sentence on the firm's behalf to meet this competency requirement; however, this section's applicability is broader than what is required by the UAA since the definition of an accounting and auditing practice in quality control standards encompasses a wider range of attest engagements.